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U.S. MERIT SYSTEMS PROTECTION BOARD
Washington, D.C. 20419

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U.S. MERIT SYSTEMS PROTECTION BOARD

BEFORE THE

SUBCOMMITTEE ON THE CIVIL SERVICE

HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE

ON THE

SENIOR EXECUTIVE SERVICE

The Board appreciates the opportunity to testify at these hearings reviewing the state of the Senior Executive Service (SES) and to share with the Subcommittee our insights on the issues that have been raised. I hope that the information we present will assist you in your effort to examine the SES. Our testimony includes commentary on: the Government's ability to attract and retain competent senior executives, executive accountability and arbitrary actions in the SES, and a composite view of senior executives.

The testimony is based on data gathered from two MSPB surveys conducted by the Board's Office of Merit Systems Review and Studies (MSRS). The first, the Merit Principles Survey, conducted in July of 1983, contained a section specifically for

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senior executives. Almost 1,300 executives responded to that questionnaire. The sample of SES membership (about 20 percent) represents a significant data base which allows us to project our findings to the entire executive population on a statistically valid basis.

In our second survey, conducted in September 1983, we telephoned 856 (over 55 percent) former members of the SES who had either resigned or retired during the period July 1980 to June 1983. This sample is sufficient to allow us to apply our findings to the universe of former executives.

To my knowledge, this is the only body of scientifically gathered data from former Federal executives. We believe they offer a unique and valuable perspective on what they perceive to be the successes and failures of the SES.

We asked the same or similar questions in both surveys, allowing us to compare the opinions of executives who have remained in Government to those who have left.

ATTRACTING AND RETAINING COMPETENT SENIOR EXECUTIVES

It is generally agreed that the SES will act as an elite cadre of highly competent executives only if the Government is able to hold on to supervisor executives throughout their careers and recruit and retain highly qualified members. Fulfilling the mandate to provide for a compensation system designed to

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and retain highly competent executives appears to be central to the success of the SES. A clear majority of the current senior executives (77 percent) and former executives (70 percent) felt that this goal has not been achieved.

A critical feature of the compensation system envisioned by Congress is the bonus system. On the basis of our survey, it is clear that current and former senior executives feel that the manner in which this system was implemented amounted to a significant breach of faith. In fact, in our 1981 study, "A Report on the Senior Executive Service," we found that 56 percent of executives indicated that the promise of greater financial rewards was a primary reason for voluntarily electing to convert from GS 16 - 18 positions and to join the SES. In 1981 Congress and OPM changed the rules governing bonuses by reducing the number of executives eligible for bonuses from 50 to 20 percent of SES members in any given agency. Unlike previous years (FY'82 and FY'83), Congress did not include a 20 percent limitation on SES bonuses in the FY 1984 appropriation. As a result, the 50 percent limit of eligible SES'ers was restored. This was recently modified by OPM to a 30 - 35 percent level of eligible executives in a given agency. Thus, the current bonus system is at least 15 percent below the original statutory level.

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Data from our surveys of current and former executives indicate that they are dissatisfied with many aspects of the bonus system. Current executives indicated that they saw inequities in the distribution of bonuses. For example:

- * Fifty-two percent indicated that bonuses are given disproportionately to executives at the top of agencies.
- * Seventy-one percent indicated that executives who work on projects of low visibility, or of low interest to top management have little chance of receiving a bonus regardless of how well they performed.
- * Sixty-two percent of former executives felt that the bonus system was not important as a motivator for them to work harder.

However, in spite of problems with the compensation system and possible future reductions in retirement benefits, most executives are not leaving the Government. The most important reasons that executives remain in Government is the nature of the work they do (85 percent), and the opportunity to have an impact on public affairs (76 percent). Further, executives view the current retirement system as an important incentive to stay in Government, so much so that over 80 percent indicated that proposals to reduce benefits would motivate them to leave the public sector.

It should be noted that the unique financial aspects promised in the SES do not appear to motivate most executives to stay in Government. According to our data, most appear to

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be staying in spite of the fact that many of the financial benefits promised in the Civil Service Reform Act (CSRA) never became a reality. Executives want to remain Federal employees primarily because of the intrinsic value of their work. In essence, they seem to be motivated to stay for reasons that are not related to the statutory changes mandated by the CSRA.

It seems likely, that the incentives to remain a public servant could be outweighed by the financial benefits offered by the private sector. Should that happen, the Government's ability to recruit candidates from within and outside the Government and to retain current executives may be greatly impaired. If that happens Congress and OPM will need to carefully consider changes to the SES to ensure that the public sector is able to recruit and retain qualified executives. As much as possible, efforts should be made to maintain the SES as a predictable system which offers reliable incentives to perform.

When we surveyed current Federal executives we found that only 16 percent of them had looked for private sector employment within the last year, and approximately 60 percent do not plan to leave Government before they are eligible to retire. However, even though they are not seeking other employment, 40 percent reported that within the last year they have been actively recruited or offered a job outside of the Government. In addition, a clear majority of executives (68

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percent) believe that they could find a higher paying job outside the Federal Government and even more (79 percent) also believe that they are being paid less than their counterparts in the private sector.

Our survey also revealed that current executives are not solely concerned with the financial aspects of the SES. For example, 71 percent indicated that the negative image associated with being a Federal employee would be a significant factor if they were to leave the public sector. However, they also cited the lack of promotion potential (43 percent) and their salary level (46 percent) as other considerations for leaving.

It is not surprising, therefore, that senior executives who left the Government felt that financial considerations, including the possibility of a continued ceiling on executive salaries, were important reasons to leave. Over 90 percent of executives who resigned told us that their subsequent job entailed a higher rate of pay than the job they left.

Our survey reveals that former executives who are employed full-time have increased their salary by more than \$17,800 above what they had been earning in their last Government job. Former executives who are self-employed have increased their salary an average of \$11,000. These salary figures do not include retirement benefits. In addition to the increased

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financial rewards, former executives, in most cases, are enjoying their work more now. Almost 85 percent reported that they are as satisfied or more satisfied with the job they have now, as opposed to the job they had in Government.

In addition, nonmonetary reasons for leaving were also important. A majority (53 percent) wanted to find a more interesting job outside Government. Approximately one-third of both resignees and retirees felt that their knowledge and skills were not being used appropriately, and that they did not enjoy the work anymore. Criticism of Federal workers by the public, press, and politicians also played a role (resignees 21 percent, retirees 31 percent).

Most retired senior executives (81 percent) indicated that they did not retire primarily for financial reasons. Many left the Government simply because they felt it was time for them to retire. One of 10 also gave dissatisfaction with the compensation and bonus system as a reason they opted to retire when they did.

If the SES is to succeed, it must be able to attract and retain highly qualified employees from within Government as well as from the private sector. It was expected that jobs in the SES would be actively sought by most midlevel employees. Our surveys indicate that this is not the case. When employees in grades GS/GM 13-15 were asked if they would join the SES, the reaction was mixed, with 45 percent saying that they would join and 40 percent saying that they would not.

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Clearly, there is no consensus among mid-level professionals about the desirability of joining the SES. This finding leads us to the question: If the SES is not a preferred career goal for upwardly mobile Federal employees, how can we expect to attract qualified executives from the public sector?

Further, a significant percentage of executives is willing to give up membership in the SES. When current senior executives were asked if they would be willing to revert to a GS 16-18 level if it involved approximately the same type of work, 35 percent said that they were willing although 37 percent said that they would not. By contrast, 21 percent of former senior executives indicated that they would have reverted while 64 percent said that they would not.

EXECUTIVE ACCOUNTABILITY: THE SES PERFORMANCE APPRAISAL SYSTEM

Creating systems to link pay to performance was a dominant theme during the deliberations on the Civil Service Reform Act. The Act specified that executive success was to be measured on the basis of organization as well as individual performance. In order to achieve this goal, the law prescribed that all Federal employees' performance be appraised annually. Further, promotions, increased pay, and rewards were to be based on how well an employee was rated during the appraisal period. Hence, at least in part, an employee should be motivated to perform well because of the incentive of potential additional compensation and career advancement.

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Executives had a mixed reaction to the question of whether the SES ensures that its members are held accountable for the effectiveness and productivity of the employees under them. However, they do feel that the SES performance appraisal system, by itself, is working well. Most executives (77 percent) believe that their performance rating presents a fair and accurate picture of their job performance. However, an accurate rating is only one link in the "pay for performance" chain. Ideally, executives should say both that they approved of their rating and that they believed that they would receive a financial reward as a result of excellent performance. Perhaps the recent increase in the bonus eligibility levels will provide an increased incentive for executives to perform well.

The link between pay and performance weakened when executives responded to a question asking if they would be rewarded if they worked harder. Over 60 percent thought that they would not receive either a better job, a promotion, or more pay for working harder. In other words, they thought that they would not have the benefit of any tangible reward for their increased efforts. However, the majority (68 percent) thought that they would receive some recognition as a good performer and over 30 percent thought that they would receive some kind of nonpay reward.

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The unanswered question is whether or not a performance appraisal system can serve to encourage excellence when employees in that plan believe that harder work will not result in monetary rewards. An almost equal number of executives thought that the performance appraisal system made them do a better job (33 percent) as those who thought that it had no effect (30 percent) on their performance. Among those who said that the performance appraisal did not make them work harder, the two most often cited reasons were: nothing happened if you received a high rating (23 percent); and, there is a limit to the number of people who can get high ratings (20 percent).

A high percentage also cited "other reasons" to the question of what motivated them. The MSRS study team reviewed a sample of their written comments in order to determine what motivated these executives to perform well. We found that 63 percent said that they did not need an appraisal system to influence them to work hard. Instead they appear to be motivated by pride and the personal satisfaction of a job well done.

We also learned that a significant number of retired executives (16 percent) felt that if the performance appraisal system had retained the original bonus plan it would have motivated them to remain in government. The executives who resigned did not feel as strongly about this as did the retirees. However, 9 percent of the resignees did indicate that they would have stayed if the appraisal system had been modified. Primarily, they felt that the present system was too

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time consuming for both themselves and for the employees they supervised. Some also indicated that the ratings were not fair and that the performance appraisal "equation" was inaccurate because it lacked rewards.

ARBITRARY ACTIONS IN THE SES

Another objective of Congress in establishing the SES was to give agency heads increased flexibility in managing their resources. Central to this increased flexibility was the authority given to agency heads to reassign senior executives in order to better accomplish an agency's mission. Congress recognized that these increased authorities could potentially result in arbitrary actions or prohibited personnel practices. The law, therefore, provided executives with some protections to guard against the intrusion of partisan politics or unfair personnel actions.

The Board's survey data does not show any systemic patterns of improper personnel actions against senior executives. Some current and former executives reported individual instances of personnel abuses. However, the perception that the SES is failing to prevent abuses is fairly high--higher than would seem warranted based on the number of reported cases.

Both surveys asked extensive questions about the instances of personnel abuse in the SES. We asked current and former executives if certain arbitrary actions had either

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happened to them or if they had observed them happening to another executive. The arbitrary actions listed included "shelving" an executive by a detail or a reassignment to lower level duties not SES in nature; trying to force an executive to resign by transferring him or her to an office in another geographic location; arbitrarily lowering an executive performance rating; artificially structuring a RIF in order to remove an SES executive and arbitrarily demoting a career executive. We also asked executives to state why they believed an action was taken. The reasons cited in the survey were: the "buddy system," personality clashes, partisan politics, poor performance, and management wanting to put in their own person.

MSRS found that 16 percent of both former and current executives reported that they had experienced one or more forms of arbitrary actions. Forty percent of current and 47 percent of former members of the SES reported that they had personally observed one or more forms of such actions happening to other senior executives. The difference between 16 percent and 40 to 47 percent can be attributed to the fact that a number of senior executives could be reporting on the same incident. However, the reported actions also included allegations of poor management practices as well as prohibited personnel practices or violations of merit principles.

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The three most common abuses that former and current executives cited as having happened to them or to another senior executive were:

- * Being "shelved"; that is, being assigned to lower level duties or duties not SES in nature.
- * Having a performance appraisal arbitrarily lowered; and
- * Trying to force a resignation by using a geographic reassignment.

The reasons given for the occurrence of these actions varied somewhat between the two executive groups. However, the causes most often cited by both current and former executives were that partisan politics was a factor or that management wanted to put in its own person. These are difficult criticisms to explore scientifically. Personal interviewing would have allowed more in-depth probing in the area but the anonymity of the respondents incorporated in our survey design and lack of resources precluded this.

COMPOSITE PICTURE OF FORMER SENIOR EXECUTIVES

Data from the phone survey of former senior executives provide some interesting information on executives who left the Government. The MSRS study revealed that:

- * Ninety percent of resignees left to go to a higher paying job in the private sector.

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- * Resignees enjoyed working in the private sector as much or more than in Government.
- * The bulk of executives who resigned had been administrators (46 percent), lawyers (18 percent), or engineers (12 percent).
- * The majority of retirees had been administrators (58 percent); 12 percent had been engineers.

Very few former executives, either retired or resigned, were in occupations associated with the computer sciences, biology, math or physics. Many assume that if a "brain drain" of executives to the private sector is occurring, that senior executives in these scientific and technical fields would be among the hardest hit. This was not confirmed by the MSRS study.

Not surprisingly, the average age of retired executives (58) was much higher than that of resignees (44). It follows that retired executives had been with the Government and with their agency longer than resignees. These facts lend some credence to the belief that the more vested an executive becomes in the compensation or retirement system, the more likely that he or she will remain in Government until retirement age.

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CONCLUSION

As the legislative history of the CSRA pointed out, "more than any other provision in the Civil Service Reform Act" the Senior Executive Service "can provide the framework necessary to respond to the challenge of public service in the years ahead."

A fundamental question being addressed at these hearings is whether or not the SES has achieved this goal. In other words, has the SES done anything to improve or reduce the productivity of the Federal Government? Stated more broadly, MSRS asked current executives what impact, if any, the SES, as a system of management, had on their ability to get their job done. Over 70 percent indicated that it neither helped nor hindered them in getting their job done. This would seem to indicate that these executives perform their jobs the same way they did prior to the inception of the SES. This finding is consistent with other conclusions we have reported here today. By and large, executives are staying in Government and continuing to work hard for reasons that existed prior to the SES.

The factors that executives are most unhappy about are the promised rewards that are unique to the SES: higher salaries, bonuses and rewards. It appears that the issues that trouble executives did not surface because of imperfections in the law, but rather because of some inconsistencies in its implementation.

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We asked respondents in both surveys how successfully or unsuccessfully the goals of the SES as mandated by the CSRA have been met. While the exact response levels fluctuate with the specific goal, a large percentage of both former and present members of the SES feel certain objectives have not been achieved. More than 40 percent of retirees, resignees, and current members of the SES feel the following goals have not been implemented:

- * Basing compensation, retention, and tenure on executive success measured in terms of individual and organizational performance.
- * Providing a compensation system designed to attract and retain highly competent senior executives.
- * Protecting senior executives from arbitrary or capricious actions.
- * Providing for an executive system which is guided by the public interest and free from improper political interference.
- * Providing for the initial and continuing systematic development of highly competent senior executives.

Judgment about the remaining goals including executive accountability, recognition of exceptional accomplishment program continuity and policy advocacy was mixed, but more favorable.

Our data show that many executives perceive that the SES, as conceived in the CSRA, never became a reality and believe that they are taking the risks but are not being sufficiently

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rewarded. A proper balance between risks and rewards is perceived as crucial to the success of the Senior Executive Service. To help achieve this balance, many executives feel that the percent of executives eligible for bonuses should be returned to the original 50 percent level.

That concludes my statement this morning. I will be happy to respond to any questions the Subcommittee may have.